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SUBJECT: LEBANON: FINMIN: ALL PARTS OF GOVERNMENT SUPPORT ECONOMIC

REFORM (ECONOMIC WEEK IN REVIEW, OCTOBER 20 - 26, 2008)

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FINANCE MINISTER SAYS GOVERNMENT
UNITED ON ECONOMIC REFORM

¶1. (SBU) During a Paris III donor briefing on October 23, Finance Minister Mohammad Chatah stressed the government's commitment to improving the standard of living of the Lebanese people by fostering an economic climate that encourages investment, creates jobs, and supports its people through strong social services. He insisted that the government does not view itself as a transition government, and that it is cooperating across party lines to accomplish significant reforms during its short mandate. To start, he said, the cabinet would take up the 2009 budget law and a new IMF Emergency Post Conflict Assistance (EPCA) program in its next meeting October 30. Chatah's presentation provided a coherent vision of how the Lebanese state should work on behalf of its people, and could serve as a model for March 14's campaign platform for the 2009 parliamentary elections (reftel).

CHATAH GIVES PRESS UPDATE ON
SUPPORT PLEDGES, BUDGET ISSUES

¶2. (U) In an interview with LBC television on October 18, Chatah said that \$600-700 million of budgetary support from Paris III pledges has not yet been dispersed by donor countries, and added at the Paris III briefing that he expects Lebanon should get \$500-600 million of that soon "if everything goes as planned." Arab nationalist newspaper As-Safir said the GOL may review the 2009 budget figures due to a projected lower deficit for national power utility Electricity du Liban (EDL) following the international drop

in oil prices.

LOCAL BANKS WILL ROLLOVER
SOVEREIGN DEBT MATURING IN 2009

13. (U) In an October press conference, Chatah said the Finance Ministry was coordinating with the Central Bank regarding Eurobonds and T-bills maturing in 2009, which are estimated to total (including yields) around \$14 billion. The Ministry might reschedule or exchange these maturities, Chatah said. Local banks hold the bulk of these maturities, and according to Dr. Makram Sader, SYG of the Association of Lebanese Banks, they are expected to continue to subscribe to sovereign debt securities given the Lebanese banking sector's strong liquidity position in the face of the international financial crisis.

BANKS' LOSSES FROM GLOBAL
CRISIS ARE SMALL

14. (SBU) Dr. Fadi Khalaf, President of the Beirut Stock Exchange, told us that a senior Audi Bank official said that although the bank lost \$20 million in investments with Lehman Brothers, the bank still recorded \$70 million in profits in the last quarter. Amine Awad of Lebanon's Banking Control Commission said Lebanon's banking sector losses including unrealized profits are less than \$50 million, while profits reached \$850 million at the end of September 2008.

15. (SBU) Audi Bank Strategic Advisor Chief Finance Officer Freddie Baz told Reuters on October 18 that he expects deposits in Lebanese banks, which he argues are "considered shielded from the global financial crisis," to continue to rise. The Lebanese domestic

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banking sector saw an \$8 billion sector-wide increase in deposits during the first eight months of the year. Baz said good regulations and risk-aversion strategies by bank management have protected Lebanese banks from the international financial situation.

16. (SBU) On October 22, Baz refuted press reports that the merger of Audi Bank with Egyptian investment institution EFG Hermes has been suspended for the time being as a result of the international crisis. Baz told us that he cannot comment on this issue as he is subject to strict disclosure restrictions, but confirmed that "talks are continuing."

GOL NEEDS FUNDING FOR
STATISTICAL MASTER PLAN

17. (U) On October 22, PM Siniora announced to donor country representatives that Lebanon will start working on a Statistical Master Plan (SMP) to reinforce Lebanon's statistical system and assist the GOL in policy-making decisions. This project falls under reform initiatives taken by the government, the PM said. The preliminary study was funded through a World Bank grant, and the cost of implementing the project is about \$11.1 million over a five-year period.

FIRST WIND POWER PLANT
ESTABLISHED IN THE NORTH

18. (SBU) On October 22, press reported on the establishment of the first power plant run by windmills in the northern region of Akkar. The plant was built based on studies undertaken by a specialized French company and financed by the Issam Fares Foundation (a former Deputy PM who is also from Akkar), which determined that Akkar was a suitable location for such power plants. Fares Foundation Director General Sajih Attieh told us that this project is still in its trial phase, and that more power plants will be built throughout the area in the future.

BEIRUT PORT TO EXPAND DUE

TO INCREASED TRAFFIC

¶9. (U) The Beirut Port Authority (BPA) announced plans to expand its container terminal due to the rapid growth in the number of containers currently being handled and a lack of space and storage. Container traffic increased by 62 percent in 2007 compared to 2006. BPA retained German consultant Sellhorn to conduct studies related to the expansion, which also helped with the port's previous expansion in 2005.

IMF RAISES LEBANON'S 2008 GROWTH
FORECAST TO SIX PERCENT

¶10. (U) In its most recent World Economic Outlook (WEO), the IMF revised its forecast for Lebanon's 2008 real GDP growth upwards to six percent from an estimated three percent in the previous WEO March issue. The IMF noted that Lebanon would likely prove resilient to the global financial crisis, mostly because of the higher-than-average liquidity of its banks and the Central Bank of Lebanon's (CBL) leadership. The lack of direct links between Lebanon and the current crisis would also render the country more resilient than other emerging markets, according to the report.

LEBANON RANKS 79 GLOBALLY
IN PROSPERITY INDEX

¶11. (U) The Legatum Institute's 2008 Prosperity Index ranked Lebanon 79 out of 104 countries worldwide and 11 out of 13 MENA countries in terms of drivers of prosperity. The index is intended to reflect the conditions that foster prosperity in a given country. It ranks countries based on the strength of 44 variable drivers -- grouped into the two main pillars of economic competitiveness and comparative livability -- rather than according to simple measures of income and life satisfaction.

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